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Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 IO-13 ISO-00 OES-06 AGRE-00 AID-05
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00
XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-04 CEA-01 /110 W
----------281525Z 010683 /50 45
P R 281415Z DEC 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 9310
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA
USDEL MTN GENEVA

UNCLAS SECTION 1 OF 2 BRASILIA 10551

PASS TREASURY

E.O. 11652: N/A
TAGS: ECON, EFIN, BR
SUBJ: GOB ANNOUNCES ADDITIONAL ECONOMIC MEASURES

1. SUMMARY. ON THE EVE OF THE HOLIDAY SEASON, THE BRAZILIAN GOVERNMENT PRESENTED THE COUNTRY WITH A COMPLEX SERIES OF ECONOMIC MEASURES. THESE LATEST ACTIONS, TOGETHER WITH THE REDUCTIONS IN PUBLIC SECTOR INVESTMENT SPENDING ANNOUNCED LAST MONTH AND THE APPROVAL OF THE MONETARY BUDGET EXPECTED IN MID-JANUARY, PROVIDE THE BASIC OUTLINE OF THE GOB'S ECONOMIC PROGRAM FOR 1977. END SUMMARY

2. IN SEPARATE MEETINGS ON DECEMBER 22, 1976, THE NATIONAL MONETARY COUNCIL (CMN) AND THE ECONOMIC DEVELOPMENT COUNCIL (CDE) APPROVED THE FOLLOWING ECONOMIC MEASURES:
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A. FEDERAL GOVERNMENT'S BUDGET: IN AN IMPLEMENTING DECREE ESTABLISHING THE NORMS UNDER WHICH THE 1977 BUDGET, APPROVED BY CONGRESS ON DECEMBER 9, 1976, IS TO BE EXECUTED, THE CDE IMPOSED VERY STRICT

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CONTROLS ON SPENDING BY MINISTRIES
NEXT YEAR, PLACING ALL FEDERAL SPENDING
UNDER THE CETRALIZED CONTROL OF THE
COMMISSION FOR FINANCIAL PROGRAMMING, AN
AGENCY OF THE MINISTRY OF FINANCE UNDER THIS
SCHEME, EACH MINISTRY WILL BE REQUIRED TO
ADHERE TO THE APPROVED MONTHLY BUDGET
TARGETS (PRESUMABLY ON A DISBURSEMENT BASIS)
AND WILL NOT HAVE ACCESS TO SUPPLEMENTARY
SOURCES OF FUNDS AS IN THE PAST. NO EXPEND-
ITURES WILL BE APPROVED UNLESS FUNDS ARE
EXPLICITLY PROVIDED FOR IN THE BUDGET, A REVERSAL
OF PAST POLICY WHICH PERMITTED MINISTRIES TO
PLAN EXPENDITURES ON THE BASIS OF FUNDS "TO BE
PROGRAMMED." A "SPECIAL RESERVE FUND"
AMOUNTING TO 25 PERCENT OF TOTAL REVENUES
FROM THE TAX ON MINERALS, LUBRICANTS, GAS,
ELECTRICITY AND FINANCIAL OPERATIONS ALSO
WAS ESTABLISHED, HOWEVER, TO "PROVIDE GREATER
FLEXIBILITY TO BUDGET PROGRAMMING NEXT YEAR."
THE FUND WILL PROVIDE SUPPLEMENTARY FINANCING
IN SPECIAL CASES. THE 1977 BUDGET IS
EXPECTED TO BE BALANCED WITH REVENUES AND
EXPENDITURES TOTALLING CR 229.9 BILLION.

B. FERTILIZER SUBSIDY: THE CMN
ELIMINATED THE 40 PERCENT SUBSIDY ON
FERTILIZER PRICES AND DECIDED TO LET
EXPIRE ON DECEMBER 30 THE SPECIAL LINE OF
CREDIT OF US DOLS 200 MILLION WHICH THE BANCO
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DO BRASIL HAD USED TO FACILITATE FERTILIZER
IMPORTS. AS OF JANUARY 1, 1977 FERTILIZER
PRICES AND FERTILIZER FINANCING WILL BE
SUBJECTED TO MARKET CONDITIONS, ALTHOUGH
THE MINISTER OF AGRICULTURE HAS PROMISED
SOME FORM (YET TO BE DEFINED) OF RELIEF TO
FARMERS. THE MINISTER OF AGRICULTURE
AGREED TO THE ELIMINATION OF THE
SUBSIDY ON THE GROUNDS THAT THE PRODUCERS
OF FERTILIZERS WERE GETTING MOST OF THE
BENEFIT.

C. EXPORT FINANCING: THE CMN STREAM-
LINED EXPORT FINANCING FOR MANUFACTURED PRODUCTS
BY COMBINING CENTRAL BANK RESOLUTIONS 71 AND 353. UNDER THE
NEW SCHEME (CENTRAL BANK RESOLUTION 398),
THE EXPORTER WILL BE ABLE TO OBTAIN EXPORT
FINANCING AUTOMATICALLY IF HE MEETS CERTAIN

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EXPORT TARGETS (YEARLY) WHICH HE UNDER-
TAKES WITH CACEX. THE BASIC FINANCING WILL
AMOUNT TO 20, 30, OR 40 PERCENT, DEPENDING
ON THE SECTOR, OF THE FIRM'S EXPORTS IN THE
YEAR PRECEDING THE ONE IN WHICH IT UNDER-
TAKES ITS COMMITMENT WITH CACEX. THIS
AMOUNT IS AUGMENTED BY (A) 20 PERCENT OF THE
INCREASE IN EXPORTS IN THE TWELVE-MONTH
PERIOD PRECEDING THE CACEX COMMITMENT OVER
THE PRECEDING TWELVE MONTHS, AND (B) 30
PERCENT OF THE INCREASE IN EXPORTS IN EACH
QUARTER (COMPARED TO THE SAME QUARTER THE
PREVIOUS YEAR) SUBSEQUENT TO THE CACEX
COMMITMENT. THE TERMS OF THE FINANCING
ARE: MATURITY, UP TO 360 DAYS, AND
INTEREST RATE, UP TO 8 PERCENT. NO OVER-
ALL FIXED CEILING WAS PLACED ON THIS TYPE OF
EXPORT FINANCING, ALTHOUGH THE HEAD OF CACEX
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RECENTLY SAID THAT CR 30 BILLION WOULD BE MADE
AVAILABLE FOR THIS PURPOSE (HE WAS LATER REFUTED
BY THE PRESIDENT OF THE CENTRAL BANK WHO SAID
THE EXPECTED COMMITMENT OF FINANCIAL RESOURCES
WOULD BE CONSIDERABLY LESS).

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ACTION ARA-10

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-07 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04
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ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01
XMB-04 ARAE-00 /111 W
----------281526Z 010615 /50 45
P R 281415Z DEC 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 9311
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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PASS TREASURY

D. EXPORT INCENTIVES: THE GOB DECREED THAT EXPORTERS CAN HENCEFORTH CALCULATE FISCAL INCENTIVES ON A CIF BASIS, IF (A) THE INSURANCE COVERAGE IS ISSUED BY A NATIONAL FIRM AND (B) THE MERCHANDISE IS SHIPPED ON BRAZILIAN BOTTOMS AND VEHICLES OR ON FOREIGN BOTTOMS, IF THE FOREIGN CARRIER IS FROM A COUNTRY WHICH HAS AN INTER-GOVERNMENTAL AGREEMENT WITH BRAZIL ON THE DIVISION OF CARGO TRANSPORT AND IF THE FOREIGN GOVERNMENT HAS AUTHORIZED THE CARRIER TO PARTICIPATE IN THE SHARING OF THE CARGO TRANSPORT COVERED BY SUCH AN AGREEMENT.

E. SHIFTING OF SOCIAL TAX ONTO GASOLINE PRICES: THE GOVERNMENT DECREED THE SHIFTING OF THE 6 PERCENT SOCIAL WELFARE TAX
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ONTO GASOLINE PRICES AND AWAY FROM WATER, ELECTRICITY AND TELEPHONE CHARGES. THE SHIFT IS EXPECTED TO RAISE THE CURRENT PRICE OF REGULAR GASOLINE (ON WHICH THE TAX HAS BEEN PLACED) BY 4.17 PERCENT.

F. INCREASED WITHHOLDING TAX ON FIXED INTEREST SECURITIES: IN AN EFFORT TO STIMULATE STOCK MARKET ACTIVITY, THE WITHHOLDING TAX ON FIXED INTEREST SECURITIES WAS INCREASED TO A MAXIMUM OF 10 PERCENT (FROM 7 PERCENT) ON ASSETS WITH PRE-FIXED MONETARY CORRECTION AND TO A MAXIMUM OF 30 PERCENT (FROM 18 PERCENT) ON ASSETS WITH POST-FIXED CORRECTION.

G. FINANCIAL ASSISTANCE FOR SMALL AND MEDIUM-SIZED FIRMS: A FUND OF CR$3.0 BILLION WAS SET UP TO MEET WORKING CAPITAL NEEDS OF SMALL AND MEDIUM-SIZED FIRMS IN 1977. THIS FUND WAS NO DOUBT DESIGNED TO OFFSET PART OF THE DISPROPORTIONATE BURDEN THAT THE CONTINUATION OF THE CURRENT TIGHT CREDIT POLICY WILL PLACE ON THESE ENTITIES.

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H. CAPITAL BASE OF FINANCIAL INSTITUTION RAISED: IN ORDER TO STRENGTHEN THE STRUCTURE OF FINANCIAL INSTITUTIONS, THE CMN INCREASED THE MINIMUM CAPITAL BASE OF INVESTMENT BANKS, FINANCE COMPANIES AND BROKERS.

I. IMPORT CONTROLS: ALL IMPORTS OF NON-FERROUS METALS, STEEL PRODUCTS, COMPUTORS OR OTHER EQUIPMENT OR PARTS OF DATA PROCESSING SYSTEMS MUST RECEIVE PRIOR APPROVAL BY THE COMPETENT AUTHORITIES BEFORE THEY CAN BE UNCLASSIFIED

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IMPORTED DURING THE COURSE OF 1977. A SIMILAR SYSTEM WAS FOLLOWED DURING 1976 FOR BASIC STEEL IMPORTS.
CRIMMINS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, INVESTMENT LAW, FOREIGN MARKETS, ECONOMIC PROGRAMS, GOVERNMENT MINISTRIES
Control Number: n/a
Copy: SINGLE
Draft Date: 28 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BRASIL10551
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760473-1281
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976128/aaaaagjs.tel
Line Count: 245
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: vogelfj
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUN 2004 by chengls>; APPROVED <22 DEC 2004 by vogelfj>
Review Markings:

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Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOB ANNOUNCES ADDITIONAL ECONOMIC MEASURES
TAGS: ECON, EFIN, BR
To: ARA
SECSTATE WASHDC
MULTIPLE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006